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SUBJECT: CODEL MEEKS DISCUSSES TRADE, INVESTMENT, AND
ECONOMIC COOPERATION WITH TUNISIAN OFFICIALS

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Classified By: Charge d'Affaires Marc L. Desjardins for reasons 1.4 (b)
and (d)

Summary

11. (SBU) A congressional delegation, led by Representative Gregory Meeks (D-NY), including Representatives Mel Watt (D-NC), Jack Kingston (R-GA), Sheila Jackson Lee (D-TX), and Marcia Fudge (D-OH)), visited Tunisia August 27-30. Senior Tunisian officials including the Prime Minister, the Foreign Minister, and the Minister of Development and International Cooperation offered views on the current economic state of affairs, Tunisia's overall economic strategy, and discussed opportunities to boost bilateral trade and investment. End Summary.

Tunisia Stable, but Not Immune to Global Shocks

12. (C) Foreign Minister Abdallah gave CODEL Meeks a positive picture of Tunisia's level of development. In his forty-minute introductory speech, he characterized Tunisia as a "stable country," noting that 80 percent of the country is "middle class." In addition, Abdallah said 80 percent of Tunisians own their own homes, and hoped that number would increase to 90 percent by 2014. Unlike the rest of the African continent, he said, Tunisia provided potable water to 98 percent of its territory. Tunisia was even better than some EU countries in protecting the environment, Abdallah claimed.

13. (C) By contrast, Prime Minister Ghannouchi spoke to the delegation about the impact of the economic crisis in Tunisia. He said that the GOT's growth projections had been revised downward from 6 to 3.5 percent for 2009, but maintained that GOT action had preempted a further contraction of the Tunisian economy. Ghannouchi said Tunisia took its economic cues from the U.S. and Japan and had enacted stimulus plans to help companies affected by the crisis and focus on infrastructure. Ghannouchi also said that good agricultural yields this year would help mitigate

the crisis.

The GOT's Economic Vision

¶4. (C) Minister of Development and International Cooperation Jouini outlined for the CODEL Tunisia's strategy for the future: increase trade and extend economic liberalization. Jouini said that since Tunisia did not have the resources to create its own wealth, its leaders had chosen over the last decades to generate growth through trade instead. Jouini said Tunisia's Association Agreement with the EU had been very successful, increasing revenue two to three fold since it was signed. Tunisia now has a trade surplus with Europe, he boasted. Jouini said the GOT is looking to diversify to other regions, even discussing trade links with some Asian countries (Note: one of the cabinets in the Prime Minister's office was filled with Chinese artifacts. End Note.) Jouini believed bilateral agreements were the way to go, since multilateral trade agreement efforts had been stalled for some time. On liberalization, Jouini told the delegation it was the "only way." Tunisia wants to take firm but carefully planned steps, he said, so that "once we do something, we never have to undo it."

¶5. (C) PM Ghannouchi said the GOT supports all initiatives that came out of the London Summit, since Tunisia depends on recovery of the world economy to get out of the crisis. Ghannouchi said he believed we needed to rethink the role of Bretton Woods institutions, such as the World Bank and IMF, to reinforce supervision and control of international banking. He said movement on the Doha Round should happen as soon as possible, so that foreign trade can spur development.

Moving toward an FTA with the United States

¶6. (C) All GOT officials who met with CODEL Meeks brought up the possibility of a free trade agreement with the United States. The Prime Minister favored a step-by-step approach, modeled after Tunisia's agreement with the EU (where an agreement for trade in goods was signed first, to be followed by services and agriculture). He said when Tunisia signed the Trade and Investment Framework Agreement (TIFA) with the United States in 2002, the expectation was to move slowly to an FTA. Jouini said that in the last two to three years, the TIFA working groups had stopped. When Representative Watts asked why this was, Jouini said the loss of fast-track trade promotion authority in the U.S. Congress and the change of administration were to blame. He added, however, that U.S. investment was very important to Tunisia. Given that 25-30 percent of Tunisian growth comes from trade, Jouini added, trade with the U.S. is an important strategic goal.

¶7. (C) PM Ghannouchi also talked up trade with the United States. He said the current trade balance favored the U.S., and that perhaps there would be more Tunisian investment in America if the Generalized System of Preferences (GSP) were made permanent. Minister Jouini said Tunisia's economy is very tied to Europe (80 percent of FDI is from the EU and 80 percent of Tunisian exports are destined there), and Tunisia is willing to sign a comprehensive trade agreement with the U.S. in order to increase bilateral trade. He said that like the United States, Tunisia faced some domestic resistance to FTAs, mostly from local farmers and strong trade unions, but that those complications would not prevent Tunisia from signing an FTA covering all sectors.

GOT Wants More U.S. Investment

¶8. (C) The Prime Minister, other Ministers, and Parliamentarians who met with the delegation all said there was not enough U.S. investment in Tunisia, despite the

investment climate being favorable to foreign direct investment (FDI). PM Ghannouchi said FDI currently made up five percent of GDP, in part because investors found Tunisian labor cheap and skilled. There is also good infrastructure, a sound legal framework, and an easy regime for the repatriation of profits, Ghannouchi added. Minister Jouini went into some detail explaining to the CODEL which sectors of the economy were most open to investors, describing the offshore sector, manufacturing, services and tourism as the most liberalized. He explained the agricultural sector was restricted because foreigners cannot own agricultural land (they sign long-term leases instead), and the retail and banking sectors still placed some restrictions on foreign investment.

¶9. (C) Members of the delegation brought up the issue of franchises a number of times during the meetings, seeking clarification on whether the new franchise law (Ref C) would allow hard currency royalty repatriation. The PM said that profit repatriation was not restricted, as did Minister Jouini (Note: While it is true that profits have no repatriation issues, royalties - which are paid irrespective of a franchisee's profits, do not have the same guarantees. End note.) Both officials were positive on the possibility of more U.S. investment through franchises, but provided little detail on the specifics of the law.

Views from the Private Sector

¶10. (C) CODEL Meeks also met with selected representatives from the Tunisian private sector - both American and Tunisian companies in the energy, IT, agri-food, textile, manufacturing, and financial sectors. Most invitees were positive on the investment climate, citing the tax breaks for offshore companies and cheap, skilled labor as investment incentives. Nearly all companies agreed, however, on the obstacles posed by poor IT infrastructure. In fact, the network's shortcomings drove Coca-Cola's Maghreb headquarters in Tunis to purchase their own dedicated internet line to link to Europe. Mondher Ben Ayed, former president of the Tunisian-American Chamber of Commerce (TACC) and president of an IT company, said that Tunisia was three years behind Europe in both technology and regulation, but that new liberalization (such as the award of a third telecom provider license) would speed Tunisia along. Many participants agreed the onus was on them to promote Tunisia as an investment destination to American investors. In this vein, Nazeih Ben Ammar, TACC's current president, informed the delegation of the upcoming door-knock mission in October to promote Tunisia among lawmakers.

Comment

¶11. (C) The delegation heard relatively candid views from the GOT on the state of the Tunisian economy, the GOT's economic strategy, and trade and investment. They heard the normal gripes about not enough U.S. investment in Tunisia, but the message was clear: the GOT claims to be open to negotiating a free trade agreement with the United States, and is eager to draw more U.S. investment.

¶12. (U) CODEL Meeks did not have the opportunity to clear this cable before leaving Tunisia.
DESJARDINS